



*Prince  
Edward  
Island*  
CANADA

## *Risk Management and Insurance*



## *Annual Report 2011-2012*



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# Message from the Minister

The Honourable H. Frank Lewis  
Lieutenant Governor of Prince Edward Island  
PO Box 2000  
Charlottetown, PE C1A 7N8

May it please your Honour:

Pursuant to the *Financial Administration Act* it is my privilege to submit the Annual Report of the Risk Management and Insurance Section and the financial statement of the PEI Self-Insurance and Risk Management Fund for the period ending March 31, 2012.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'W. Sheridan', with a stylized flourish at the end.

Honourable Wesley J. Sheridan  
Provincial Treasurer



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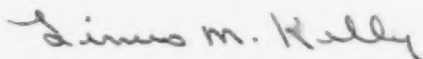
# Message from the Manager

Honourable Wesley J. Sheridan  
Minister of Finance, Energy and Municipal Affairs  
Second Floor South, Shaw Building  
95 Rochford Street  
PO Box 2000  
Charlottetown, PE C1A 7N8

Dear Mr. Sheridan:

It is my privilege to submit the annual report of the Risk Management and Insurance Section of the Department of Finance and Municipal Affairs. (RM&I). Included in this report are the audited financial statements of the PEI Self-Insurance and Risk Management Fund for the year ending March 31st, 2012.

Respectfully submitted,



Linus M. Kelly, BA, CIP, CRM, Manager  
Risk Management and Insurance Section



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# Mandate of the Risk Management and Insurance Section (RM&I)

## *Mandate*

Our section's mandate is to develop, implement and maintain Government's risk management and self-insurance programs, with the goal of eliminating or minimizing the potential for loss to Government departments, crown corporations, agencies, commissions, Health PEI and school boards/districts. The objective is to provide a quality service which protects public sector assets and programs, to control losses when they occur, by providing a professional claims management service to our insureds and the public we serve. We focus on providing professional risk management and insurance advice on a daily basis, which is essential to the many programs our clients deliver to the general population.



## Manager's Overview

In 1986 the PEI Self-Insurance and Risk Management (Fund) was established by the Government of Prince Edward Island under the *Financial Administration Act*. The volatile insurance market of the day caused premiums to escalate, and there was a reluctance to insure Government sector entities. To counter the effects of escalating premiums and diminishing coverage limits, it was the decision of Government to establish its own self-insurance program. For 10 years the program insured the liability exposures for Government, the health sector, and school boards/districts. The program has been responsible for building a fund of approximately \$5 million, paying claim and administration costs, while establishing risk and claims management services designed specifically for Government and all associated PEI public sector organizations.

In 1997 property premiums with private insurers were increasing. The increased rates were a reflection of trends in the world marketplace and not the loss experience of the Province. A decision was made to increase our loss retention of \$500,000 on Government, School and Health Sector properties. Treasury Board approved including these exposures under the umbrella of the existing self-insurance fund. Stop loss insurance with an aggregate of \$1 million is purchased to limit Government's exposure for any one policy year and for any one loss. Although the events of September 2001 had a devastating effect on the insurance marketplace, Government was able to maintain stability with its rates, due to the capacity of the fund. In 2005, the program was further expanded to insure the entire automobile fleets of Government, Health and School Boards/Districts under the Fund. Government Departments, Agencies, Commissions, Crown Corporations and School Boards realized an immediate premium savings of approximately 40 per cent. In 2011 due to soft market conditions we were able to negotiate a reduction of our property loss retention from \$500,000 to \$250,000. This year our property loss retention on Government locations was \$250,000. Schools were \$250,000 and Health Sector was \$250,000.

The growth of the PEI Self-Insurance and Risk Management Fund, over the last 25 years, has required our section to expand its risk capacity and the professional services needed for our clients to manage new risks, more effectively. We now have a diversified book of business and only special risks are insured in the private sector market. The *Financial Administration Act* serves as our guide to limit eligibility to reporting entities and those who use the *Treasury Board Policy and Procedure Manual* as their management guide.

The terrorism crisis of 2001 has changed the dynamic on how public sector entities view risk. Risk Management and Insurance continues to expand programs and services to our clients in Government and other public sector entities funded by Government. We have been able to negotiate favorable premiums with a balance between very low risk property and liability exposures, with those which by nature of the business conducted are more likely to have claims made against them.

There is a growing trend for more claims to be brought against Government and other public sector entities including School Boards who are responsible for managing the risks associated with our public education system. There are also growing numbers of malpractice suits against medical professionals, which name Health PEI Institutions and employees as defendants. Risk Management & Insurance is more vigilant than ever in managing files, which have potential for significant legal costs, before actual litigation.

The potential for a monetary windfall makes the litigation process more attractive than ever. Lawsuits that were previously seen as frivolous or vexatious are now allowed into the legal process. To counter this trend, and minimize court time and legal costs, litigants can now use a "mediation" process which has saved the Fund considerable money in legal fees and court costs.

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## ***Services Provided by Risk Management & Insurance to Government Departments, Crown Corporations, Agencies, Commissions, Health PEI and School Boards/Districts***

Property Risk Inspections/Engineering Surveys electronic versions are stored in a database, WAIS, of the Risk Management and Insurance Section and are made available to clients.

- \* School playground inspections are completed in conjunction with school board maintenance and administration staff.
- \* Coordinate consultant studies on major projects and critical risk-management issues of the day.
- \* Answer frequent inquiries and provide direction to management as it relates to loss control, legal liability issues and current claim files.
- \* Perform risk assessments for specific clients and develop with them in partnership an effective risk-management strategy.
- \* Negotiate settlements of claim files with the general public, or alternatively provide understandable explanations why particular claims will not be paid.
- \* Coordinate seminars and make presentations to clients of Risk Management and Insurance. The seminars are designed to target risk exposures/concerns of the client, using practical risk management practices and insurance principles.
- \* Provide consultation services to Procurement Services regarding tenders or RAP's, with recommendations on insurance requirements for vendors and specific language which transfers risk from Government to the service provider.
- \* Facilitation with Health PEI management in negotiating contracts with a broad sector of service providers with an objective to confirm vendors are adequately insured, and the contract language is fair in terms of legal responsibilities.
- \* Review IT contracts and confirm with vendors a Government entity can and will provide insurance coverages as required in the contract, and recommend language which will make the service providers accept legal responsibility for their programs and services.
- \* Support a program where qualified persons meet with families and health care professionals to examine why a particular client had an unfavorable and unexpected experience. These disclosures minimize the need for litigation, in order for family members to receive the desired details.
- \* We introduced new enhancements to our claims management software which will allow Risk Management and Insurance to more explicitly quantify reserves on open claims and explain developments.

### ***Summary***

The demands for services with immediate time lines is an inevitable trend in our business, we have become more efficient in how we manage our client's needs. In our experience, clients who have internal resources with risk management and insurance knowledge can respond and provide direction with minimum consultation. For this reason, we are providing more training and direction to selected individuals. Our section can approve a policy and procedure for clients rather than develop it for them. The Risk Management and Insurance Intranet web-site has been updated and modified, to make it a more useful reference to our clients.

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The insurance marketplace sees Government and related entities as a source to generate revenue for their business, as a broker or insurer. Naturally, we welcome their invitations to do business, but want to maintain a level playing field when it comes to competitive quotations for our risks to be insured above and beyond our self retention values.

Brokers and insurers must be willing to insure a broad spectrum of risks in our liability, property, fiduciary and auto portfolios. It is not uncommon for us to solicit quotations for specific risks we do not wish to expose our Fund to, for a variety of loss control or insurance reasons. We now solicit quotations from PEI brokers electronically so all brokers are sent the same invitation information at exactly the same time. The P.E.I. Self-Insurance and Risk Management Fund continues to perform very well financially.

Our financial statements provide for losses which have occurred but are not yet reported (IBNR). This together with an increase in reserves will impact the expense side of the statements. It is anticipated these figures will trend downward if our claims experience continues as it has in the last twenty-five years.

In recent years we have been actively involved in the contract process, to minimize risks associated with doing business with private sector vendors. The demands for our expertise in this area has expanded particularly with the Health Sector, as they realize the potential risk exposures with the many students training in their environment, as well as the large number of vendors providing IT support, and other goods and services to our hospitals, manors, and senior homes.

The Risk Manager is serving on a committee with senior management of Health PEI. This committee is mandated to improve contract management and the risks associated with contracts. A private sector accounting firm will complete a study with recommendations on how these risks can be better managed. Health PEI will be required to commit resources to effectively manage risk in order to keep premiums at a reasonable level.

We are encouraged to see the cooperation and resources allocated towards initiatives such as "Business Continuity Management". These are risk management strategies developed by senior management throughout Government. This strategic management exercise will minimize risk to Government services and assets. A "Enterprise Risk Management" approach will minimize the risk of a duplication of resources and omissions in managing risks throughout the public sector.

The "Excess Insurers" of Health PEI have reviewed our claims and risk management procedures and found these to meet and exceed their standards. Our departmental accounting professionals continue to extract and create reports which provide further insight on the financial performance, of the funds quarterly forecasts, and assist in preparing our section for the annual audit by the Office of the Auditor General.

## Aperçu du gestionnaire

En 1986, le gouvernement de l'Île-du-Prince-Édouard, en vertu de la *Financial Administration Act* (loi relative à l'administration financière), a instauré le Fonds d'autoassurance et de gestion des risques de l'Î.-P.-É. (Fonds). Le marché volatil de l'assurance du jour a forcé l'augmentation des primes et on hésitait à assurer les entités du secteur gouvernemental. Pour parer aux effets des primes qui continuent sans cesse d'augmenter et des limites de couvertures en diminution, le gouvernement a décidé d'établir son propre programme d'autoassurance. Pendant 10 ans, le programme assurait les risques de responsabilité pour le gouvernement, le secteur de la santé ainsi que les commissions scolaires. Dans le cadre du programme, on a créé un fonds d'environ 5 millions de dollars pour payer les coûts de réclamation et d'administration, tout en établissant des services de gestion de risques et de réclamations précisément pour le gouvernement et toutes les organisations du secteur public de l'Î.-P.-É. y afférent.

En 1997, les primes sur les propriétés des assureurs privés augmentaient. Les taux plus élevés étaient un reflet des tendances du marché mondial et non pas de l'expérience de perte de la province. Une décision a donc été prise d'augmenter notre franchise sur les propriétés du gouvernement, des écoles et du secteur de la santé, qui se chiffrait à 500 000 \$. Le Conseil du Trésor a accepté d'inclure ces engagements sous l'égide du fonds existant d'autoassurance. L'assurance en excédant de perte avec un agrégat d'un million de dollars a été contractée pour limiter le risque du gouvernement pour toute police d'un an et pour une seule perte. Bien que les événements de septembre 2001 ont eu un effet dévastateur sur le marché de l'assurance, le gouvernement a pu conserver une certaine stabilité pour ce qui est des taux, étant donné la capacité du fonds. En 2005, le programme a été élargi de nouveau pour assurer tous les parcs d'automobiles du gouvernement, du secteur de la santé et des commissions scolaires couverts par le fonds. Les ministères du gouvernement, les agences, les commissions, les sociétés d'État et les commissions scolaires ont constaté des économies financières immédiates d'environ 40 pour cent. En 2011, en raison de la faiblesse des marchés, nous avons pu négocier une réduction de notre franchise sur les propriétés, la faisant passer de 500 000 \$ à 250 000 \$. Cette année, notre franchise sur les propriétés du gouvernement était de 250 000 \$, tout comme celles sur les propriétés du secteur de la santé et des écoles.

La croissance du Fonds d'autoassurance et de gestion des risques de l'Î.-P.-É. au cours des vingt-cinq dernières années a fait que notre section a dû élargir sa capacité de risque et ses services professionnels nécessaires pour nos clients afin de gérer plus de risques de façon plus efficace. Nous avons maintenant un volume d'affaires diversifié, et seuls certains risques sont assurés par le secteur privé. La *Financial Administration Act* nous sert de guide pour limiter l'admissibilité pour les entités déclarantes et celles qui utilisent le *Treasury Board Policy and Procedure Manual* (*Manuel de procédure et de politiques du Conseil du Trésor*) comme guide de gestion.

La crise de 2001 a changé la dynamique du risque pour les entités du secteur public. La Section de la gestion des risques et de l'assurance continue d'élargir ses programmes et ses services auprès de ses clients du gouvernement et d'autres entités du secteur public financés par le gouvernement. Nous avons été capables de négocier des primes favorables en obtenant un équilibre entre des propriétés et des risques de responsabilité à très faible risque, et des propriétés et des risques de responsabilité qui sont plus enclins à être soumis à des réclamations par la nature même des affaires qui y sont menées.



Il y a une tendance croissante du nombre de réclamations portées contre le gouvernement et autres entités du secteur public, comprenant les commissions scolaires qui sont chargées de gérer les risques associés au système d'éducation publique. En outre, il y a de plus en plus de poursuites judiciaires en responsabilité médicale dans lesquelles des institutions et des employés de Santé Î.-P.-É. sont les défendeurs. La Section est plus vigilante que jamais dans la gestion des dossiers qui pourraient entraîner des coûts judiciaires élevés avant le début même du procès.

Le potentiel de gain financier rend le processus des litiges encore plus attirant. Les poursuites en justice qui autrefois étaient perçues comme étant futiles ou contrariantes sont maintenant permises dans l'acte judiciaire. Pour contrer cette tendance, et minimiser le temps aux tribunaux, les plaideurs peuvent maintenant faire usage d'un système de médiation qui a permis au Fonds d'épargner de larges sommes en frais judiciaires.

### ***Services fournis par la Section de la gestion des risques et de l'assurance aux ministères gouvernementaux, aux sociétés de la Couronne, aux agences et commissions, à Santé Î.-P.-É. et aux commissions scolaires***

- Les versions électroniques des inspections de risques aux propriétés/Enquêtes d'ingénierie, conservées dans la base de données .ARMS de la Section de la gestion des risques et de l'assurance et disponibles aux clients.
- L'inspection des terrains de jeux des écoles, exécutée en collaboration avec le personnel de l'entretien et de l'administration de la commission scolaire.
- La coordination des études de consultants sur des projets majeurs et des questions critiques de gestion des risques du jour.
- La réponse aux questions fréquentes et l'attribution de directives au personnel de gestion au sujet du contrôle des pertes, de questions de responsabilités juridiques et de dossiers actuels de réclamation.
- L'exécution des évaluations de risques pour des clients en particulier et l'élaboration, avec eux, d'une stratégie efficace de gestion des risques.
- La négociation de règlements de dossiers de réclamation avec le grand public ou l'explication claire quant aux raisons pour lesquelles certaines réclamations ne seront pas réglées.
- La coordination de séminaires et de présentations aux clients de la Section de la gestion des risques et de l'assurance. Les séminaires visent à cibler l'exposition aux risques/préoccupations du client, utilisant des pratiques de gestion des risques et des principes d'assurance utiles.
- La prestation de services de consultation au service d'approvisionnement à l'égard de demandes de propositions, ainsi que la formulation de recommandations sur les exigences en matière d'assurance pour les vendeurs et sur le libellé exact qui sert à transférer le risque du gouvernement au fournisseur de services.
- La facilitation auprès de la direction de Santé Î.-P.-É. dans la négociation de contrats avec divers fournisseurs de services en vue de confirmer que les vendeurs sont assurés convenablement et que le libellé du contrat est juste quant aux responsabilités légales.
- La révision des contrats TI et la confirmation auprès des vendeurs qu'une entité gouvernementale assurera effectivement la couverture comme prescrit dans le contrat, ainsi que la recommandation du libellé qui engagera les fournisseurs de services à accepter la responsabilité légale pour leurs programmes et services.

- L'appui d'un programme dans le cadre duquel des personnes qualifiées rencontrent des familles et des professionnels de la santé en vue d'examiner pourquoi un client a vécu une expérience désavantageuse et imprévue. Ces séances de divulgation minimisent le besoin d'avoir recours au litige et donnent aux membres de famille les renseignements désirés.
- Le lancement d'un logiciel de gestion des réclamations amélioré qui permettra à la Section de mieux quantifier les réserves disponibles pour payer les réclamations ouvertes et expliquer des développements.

## Sommaire

Bien que la demande de services sans délai est une tendance inévitable dans notre domaine, nous avons amélioré notre efficacité de la gestion des besoins des clients. Selon notre expérience, les clients qui ont des ressources internes en matière de gestion de risque et une connaissance des assurances peuvent répondre aux clients et les orienter avec une consultation minimale. Pour cette raison, nous offrons une formation et une orientation supplémentaire à certaines personnes choisies. Notre section peut approuver une politique et une procédure pour les clients plutôt que de l'élaborer pour eux. Le site Web de notre section a été mis à jour et modifié et sert maintenant de référence utile à nos clients.

Le marché de l'assurance voit le gouvernement et les entités connexes comme une source de revenus pour leur entreprise, comme courtier d'assurance ou assurance. Évidemment, nous sommes ouverts à leurs invitations aux affaires, mais nous voulons maintenir les règles du jeu équitables quand vient le moment d'obtenir des présentations de prix concurrentielles pour nos risques afin d'être assurés au-delà de nos propres valeurs de rétention.

Les courtiers d'assurance et les assureurs doivent être disposés à assurer un vaste échantillon de risques dans nos portfolios de responsabilité, propriété, fiducies et automobiles. Il arrive fréquemment que nous sollicitons des propositions de prix pour des risques particuliers auxquels nous ne voulons pas exposer le fonds pour des raisons différentes de perte de maîtrise et d'assurances. Nous sollicitons maintenant des propositions de prix par voie électronique pour que tous les courtiers d'assurance reçoivent la même information au même moment. Le Fonds d'autoassurance et de gestion des risques de l'Î.-P.-É. continue de bien remplir ses fonctions financières.

Nos états financiers affectent des fonds aux réclamations subies, mais non déclarées. Cette mesure, de concert avec une augmentation des réserves, aura une incidence sur les états financiers du côté des dépenses. Nous prévoyons que cette tendance s'inversera et les chiffres seront à la baisse si la situation des réclamations demeure semblable à celle des vingt-cinq dernières années.

Dans les dernières années, nous avons participé activement au processus d'attribution de contrats afin de minimiser les risques associés aux affaires auprès des fournisseurs du secteur public. Les demandes pour notre expertise dans ce domaine ont augmenté en particulier dans le secteur de la santé, au moment où ils réalisent les risques de responsabilité potentiels en raison des nombreux étudiants qui suivent une formation dans leur milieu, ainsi qu'avec un grand nombre de fournisseurs offrant du soutien TI et d'autres biens et services dans nos hôpitaux et nos foyers de soins.

Le gestionnaire des risques siège à un comité avec des membres de direction de Santé Î.-P.-É. Ce comité est chargé d'améliorer la gestion des contrats et des risques connexes. Un cabinet comptable du secteur

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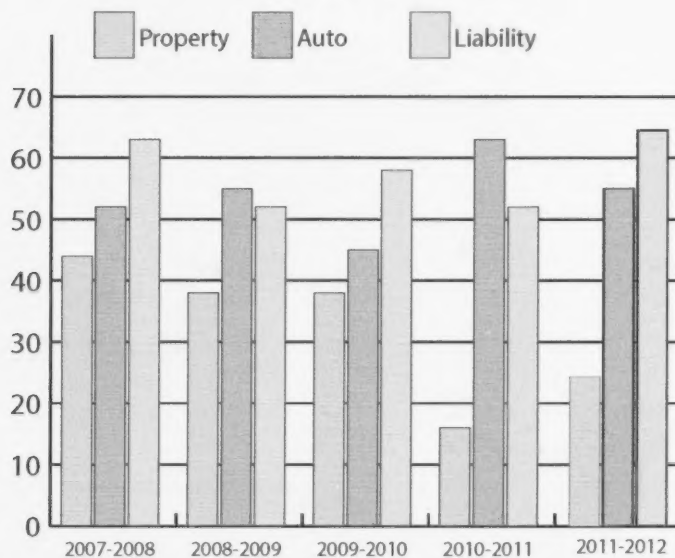
privé effectuera une étude sur ces risques et formulera des recommandations quant à leur gestion. Santé Î.-P.-É. devra affecter des ressources à la gestion efficace des risques pour bien moyenner les primes.

Il est encourageant de voir la coopération et les ressources que reçoivent des initiatives telles que les plans de continuité des activités. Ces stratégies de gestion de risques ont été mises au point par la haute direction dans l'ensemble du gouvernement. Cet exercice de gestion stratégique minimisera le risque que comportent les services et biens du gouvernement. Une approche axée sur la gestion du risque d'entreprise minimisera le risque du double emploi de ressources et des omissions dans l'ensemble du secteur public.

Certains assureurs de Santé Î.-P.-É. ont révisé nos procédures de gestion des risques et de réclamation. Celles-ci semblent respecter leurs normes ou même aller au-delà de leurs normes. Les comptables professionnels du ministère continuent d'extraire des données et de créer des rapports qui peuvent servir à l'analyse du rendement du fonds, à la formulation de prévisions trimestrielles de même qu'à la préparation à la vérification annuelle effectuée par le Bureau du vérificateur général.

# Claims Activity Report

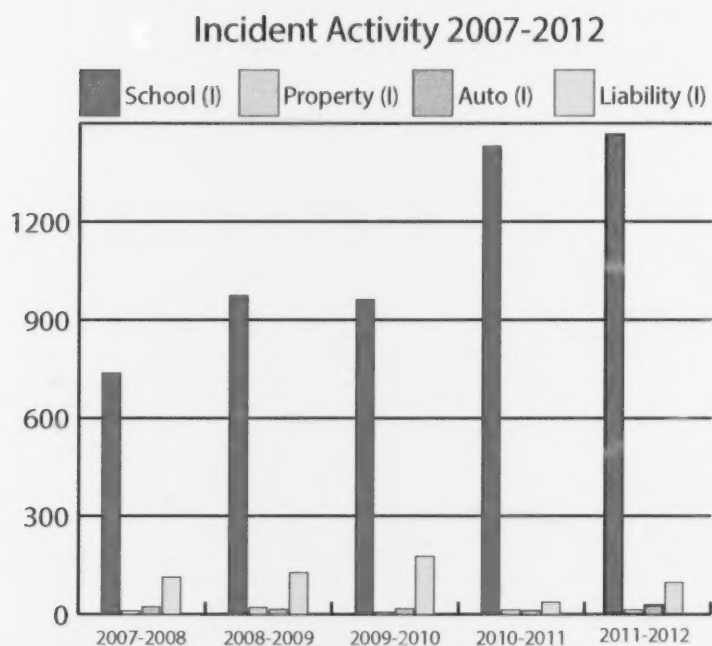
Claims Activity 2007-2012



Claims	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Property	44	38	38	16	25
Auto	52	55	45	63	55
Liability	63	52	58	52	64
<b>TOTAL:</b>	<b>159</b>	<b>145</b>	<b>141</b>	<b>131</b>	<b>144</b>



# Incidents Activity Report

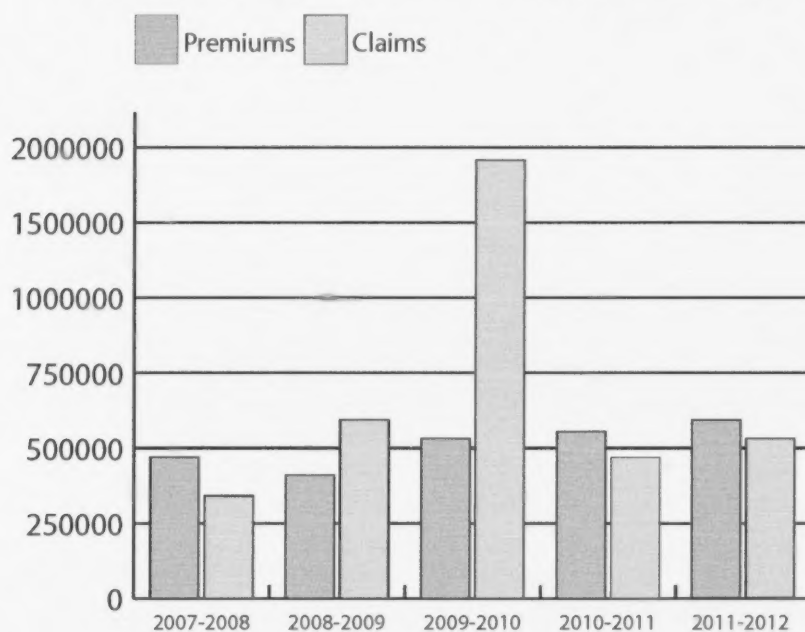


Incidents	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
School (I)	737	973	961	1429	1486
Property (I)	10	21	7	14	2
Auto (I)	23	15	18	12	17
Liability (I)	113	128	177	37	95
<b>TOTAL</b>	<b>883</b>	<b>1137</b>	<b>1163</b>	<b>1492</b>	<b>1600</b>

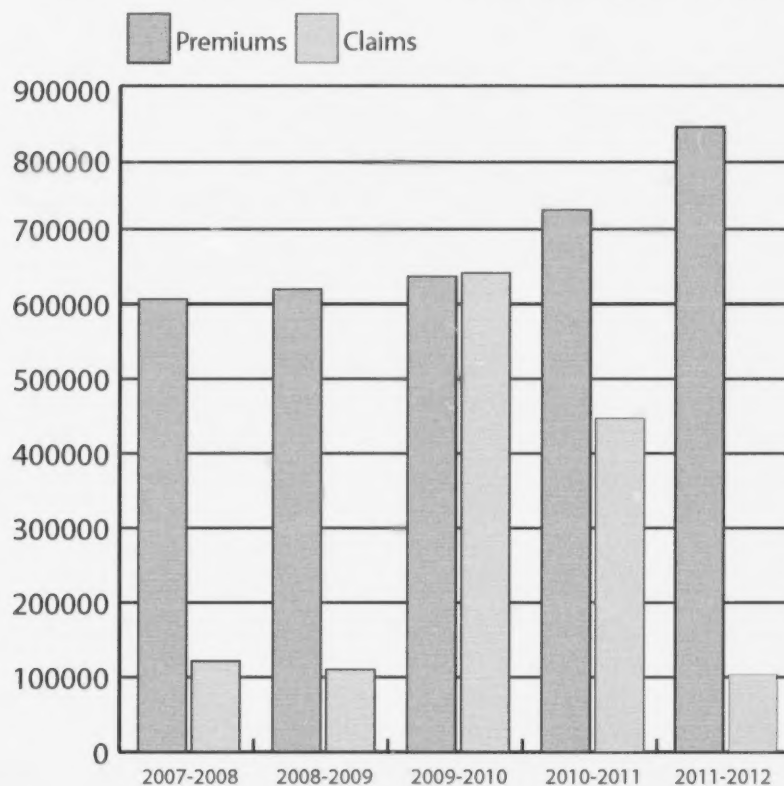
Incidents (I) = Number of written reports received for each class of incident and files opened in the event a claim is pursued.

# Five Year Premium/Claim Comparison

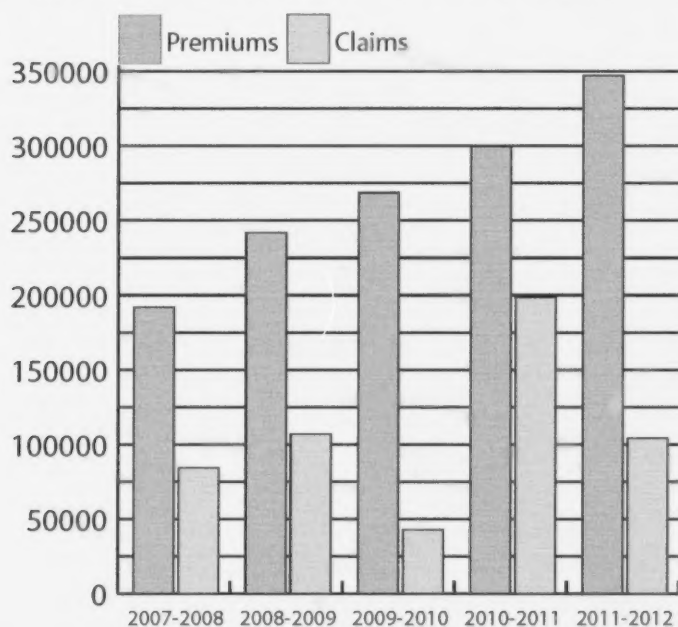
## Five Year Premium/Claim Comparison - Liability



## Five Year Premium/Claim Comparison - Property



### Five Year Premium/Claim Comparison - Automobile



### Five Year Premium/Claim Comparison - All Classes



## Loss Ratios

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
<b>Liability</b>	70%	128%	299%	118%	90%
<b>Property</b>	20%	17%	101%	77%	12%
<b>Automobile</b>	44%	44%	16%	66%	30%

### Five Year Loss Ratio for Self Insured Risk Management Fund all classes 80%

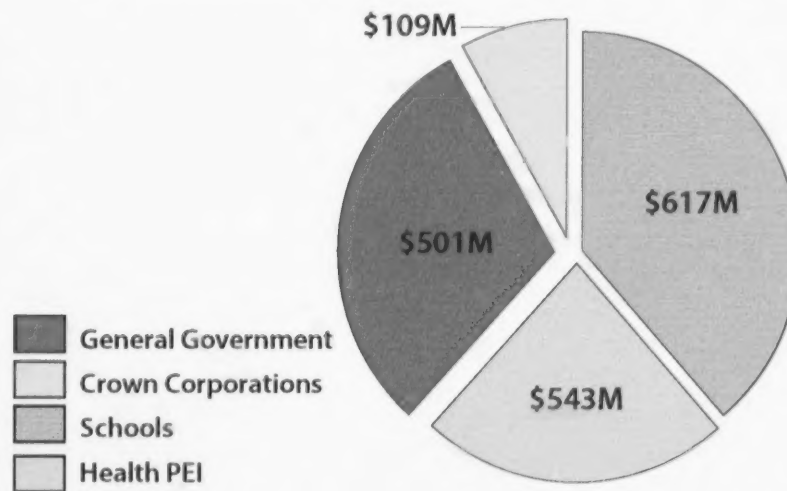
Loss Ratios are compiled for each fiscal year in order to establish whether current premiums charged are adequate to maintain the Self Insurance Risk Management Fund. Premiums are net after payments for excess insurance purchased over and above self insured retentions. Premiums for Property and Automobile include payment from General Government which cover deductibles under property insurance and physical damage claims to owned automobiles under the automobile insurance program. Property premiums include \$98,000.00 allocation and automobile premiums include a \$42,000.00 allocation. Claim statistics for the loss ratios are derived for each fiscal year using the Insurance & Risk Management Information System (IRMIS). File Contents Listings, which are reviewed each year. Outstanding reserves and net claims costs are combined to arrive at the total claim exposure. Once Premium and Claim statistics are compiled the total amount of the claims are divided into the premium and multiplied by 100% in order to arrive at the Loss Ratio.

# Insured Property Values/Auto Fleet Statistics

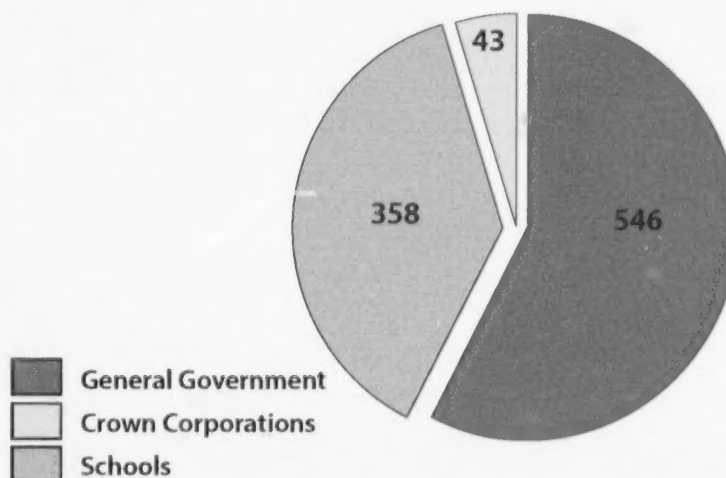
## Insured Property Values (Building/Equipment/Contents)

Insured	Number of Locations	Building Values	Contractors Equipment Values	Content Values	Total
General Government	467	\$398,644,285	\$38,014,644	\$64,988,500	\$501,647,429
Crown Corporations	61	\$74,785,209	\$2,690,484	\$31,878,834	\$109,354,527
Schools	71	\$560,779,173		\$56,077,918	\$616,857,091
Health PEI	34	\$420,177,579		\$123,017,232	\$543,194,811
<b>TOTAL:</b>	<b>633</b>	<b>\$1,454,386,246</b>	<b>\$40,705,128</b>	<b>\$275,962,484</b>	<b>\$1,771,053,858</b>

Total Insured Property Values - \$1.77 Billion



Fleet Automobile Statistics



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## Staff

Linus Kelly, BA, CIP, CRM  
Manager  
Risk Management/Loss Control/Claims

Marie Kemp, CIP  
Insurance Officer

Lorna Jenkins  
Administration/Accounting



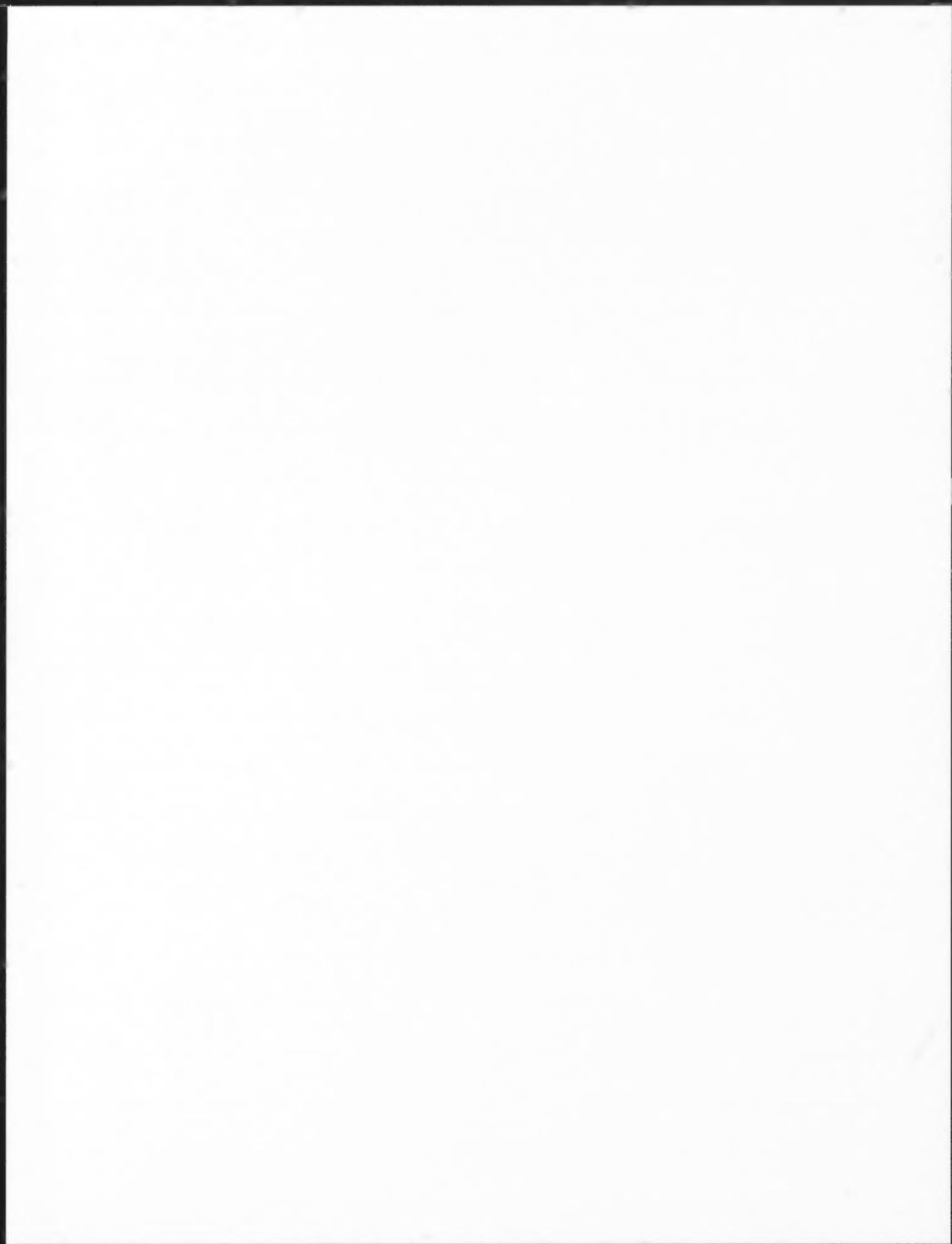
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*P. E. I. Self-Insurance  
and Risk Management Fund*

*Financial Statements*

*March 31, 2012*





**AUDITOR GENERAL**

**CHARLOTTETOWN  
PRINCE EDWARD ISLAND**

**PRINCE EDWARD ISLAND**

**SELF-INSURANCE AND RISK MANAGEMENT FUND**

**FINANCIAL STATEMENTS**

**MARCH 31, 2012**

## AUDITOR GENERAL

CHARLOTTETOWN  
PRINCE EDWARD ISLAND  
AUDITOR'S REPORT

### To the Members of Treasury Board:

I have audited the financial statements of the **Prince Edward Island Self Insurance and Risk Management Fund**, which comprise the statements of financial position as at March 31, 2011, and 2012, and the statements of operations and accumulated surplus and changes in net financial assets for the years then ended and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for the public sector and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

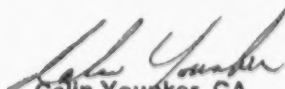
My responsibility is to express an opinion on these financial statements based on my audits. I conducted the audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2011, and 2012, and the results of its operations, changes in net financial assets and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles for the public sector.

  
Colin Yonker, CA  
Auditor General

Charlottetown, Prince Edward Island  
August 29, 2012

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT MARCH 31, 2012**

	<u>2012</u> \$	<u>2011</u> \$
<b>Financial Assets</b>		
Accounts receivable (Note 3)	8,951,281	9,114,063
<b>Liabilities</b>		
Accounts payable	-	27,361
Unearned premiums	403,458	366,264
Reserve for unsettled claims (Note 5)	<u>3,847,936</u>	<u>4,020,697</u>
	<u>4,251,394</u>	<u>4,414,322</u>
<b>Net Financial Assets</b>	<u>4,699,887</u>	<u>4,699,741</u>
<b>Non-Financial Assets</b>		
Prepaid expenses	<u>56,168</u>	<u>190,527</u>
<b>Accumulated Surplus</b>	<u>4,756,055</u>	<u>4,890,268</u>

(The accompanying notes are an integral part of these financial statements.)

Approved on behalf of Treasury Board:

Member

Member

**PRINCE EDWARD ISLAND**  
**SELF-INSURANCE AND RISK MANAGEMENT FUND**  
**STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS**  
**FOR THE YEAR ENDED MARCH 31, 2012**

	<u>Budget</u> <u>2012</u> \$	<u>2012</u> \$	<u>2011</u> \$
<b>Revenues</b>			
Insurance premiums (Note 6)	3,200,000	3,099,605	2,831,728
Interest	-	-	2,924
Grant in lieu of interest (Note 3)	175,000	175,000	175,000
Claim recoveries (Note 7)	<u>150,000</u>	<u>151,392</u>	<u>627,385</u>
	<u>3,525,000</u>	<u>3,425,997</u>	<u>3,637,037</u>
<b>Expenses</b>			
Claims (Note 5)	1,630,900	1,944,186	3,313,377
Consulting (Note 8)	134,300	80,274	84,400
Insurance premiums (Note 9)	1,295,000	1,336,143	1,269,676
Office and travel	11,500	10,692	10,225
Salary and benefits	<u>253,300</u>	<u>188,915</u>	<u>171,380</u>
	<u>3,325,000</u>	<u>3,560,210</u>	<u>4,849,058</u>
<b>Annual Surplus (Deficit)</b>	<u>200,000</u>	(134,213)	(1,212,021)
Accumulated Surplus, beginning of year		<u>4,890,268</u>	<u>6,102,289</u>
<b>Accumulated Surplus, end of year</b>		<u>4,756,055</u>	<u>4,890,268</u>

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND  
 SELF-INSURANCE AND RISK MANAGEMENT FUND  
 STATEMENT OF CHANGES IN NET FINANCIAL ASSETS  
 FOR THE YEAR ENDED MARCH 31, 2012

	Budget <u>2012</u> \$	<u>2012</u> \$	<u>2011</u> \$
<b>Net Financial Assets, beginning of year</b>	<u>4,699,741</u>	<u>4,699,741</u>	<u>5,910,560</u>
<b>Changes in year:</b>			
Annual surplus (deficit)	200,000	(134,213)	(1,212,021)
Decrease in prepaid expenses	<u>-</u>	<u>134,359</u>	<u>1,202</u>
<b>Change in Net Financial Assets</b>	<u>200,000</u>	<u>146</u>	<u>(1,210,819)</u>
<b>Net Financial Assets, end of year</b>	<u>4,899,741</u>	<u>4,699,887</u>	<u>4,699,741</u>

(The accompanying notes are an integral part of these financial statements.)

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

**1. Nature of Operations**

The Prince Edward Island Self-Insurance and Risk Management Fund (the Fund) was established under Part II of the *Financial Administration Act*. The Fund provides risk management services as well as general liability, errors and omissions, primary property, crime and automobile liability insurance for government entities. The Fund has risk management obligations that cause it to incur expenses related to claims that may not necessarily be covered under an insurance policy. The Fund is administered by Treasury Board.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector. Prior period financial statements were prepared in accordance with Canadian generally accepted accounting principles for the private sector. The adoption of public sector accounting standards has been applied retroactively. The application of the new accounting framework did not affect previously reported results. Impacts on the financial statements were limited to presentation and disclosure.

The following is a summary of the significant accounting policies used in the preparation of these financial statements.

**a) Accounts Receivable**

Accounts receivable are recorded at cost less any provisions when collection is in doubt. Provisions are calculated on a specific basis.

**b) Unearned Premiums**

Unearned premiums represent revenues received for insurance coverage beyond March 31, 2012.

**c) Reserve for Unsettled Claims**

The reserve for unsettled claims represents management's best estimate of the total costs, including investigation, litigation and the projected final settlements of specific claims incurred as of the balance sheet date. It also includes a general reserve to cover possible claims incurred as of the balance sheet date but not yet reported to management.



**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

**2. Summary of Significant Accounting Policies (continued...)**

**d) Revenues and Expenses**

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

**e) Recoveries**

Recoveries represents management's best estimate of the full amount of costs that can be recovered or are receivable, less any amounts that are uncollectible. Claim recoveries include amounts recovered or receivable from both first and third parties in relation to individual claims.

**f) Use of Estimates and Measurement Uncertainty**

The preparation of the Fund's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

The item requiring the use of significant estimates is the reserve for unsettled claims and recoveries. The reserves for unsettled claims arise from estimates of anticipated costs such as professional expenses and damages to close files that are currently open. The amount also represents an estimate for those incidents that have been incurred but not reported to management as of the audit report date. Estimates are based on management's professional judgement, as well as, third party professional advice.

**3. Accounts Receivable**

	<u>2012</u> \$	<u>2011</u> \$
Province of Prince Edward Island	8,794,754	8,505,205
Recoveries	126,101	604,105
Other	<u>30,426</u>	<u>4,753</u>
	<u>8,951,281</u>	<u>9,114,063</u>

The account receivable from the Province of \$8,794,754 includes \$6,887,571 that was invested in Provincial Deposit Receipts until March 31, 1997. At that time, Treasury Board directed the investment be redeemed and replaced by a non-interest bearing account receivable from the Province. In lieu of interest on investments, an annual payment of \$175,000 is paid by the Province to the Fund. In addition, the Province pays interest on the remaining balance at the overnight call loan rate.



**PRINCE EDWARD ISLAND**  
**SELF-INSURANCE AND RISK MANAGEMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2012**

**4. Employee Future Benefits**

**a) Sick Leave**

All employees are credited 1.25 (1.5 - excluded employees) days per month for use as paid absences in the year, due to illness or injury under existing employment agreements. Employees are allowed to accumulate unused sick day credits each year, up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements.

**b) Retirement Allowances**

Permanent employees of the Fund participate in the Province of Prince Edward Island's Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the average salary for the highest three years times the number of years of pensionable service. The Plan is administered by the Province of Prince Edward Island. The Fund's annual portion of the contributions to the Plan are paid by the Province and recognized in the Province's financial statements. Any unfunded liability is the responsibility of the Province and therefore no liability has been recognized in these financial statements.

**5. Reserve for Unsettled Claims**

	<u>Liability</u>	<u>Property</u>	<u>Auto</u>	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>Total</u>	<u>Total</u>
				<u>\$</u>	<u>\$</u>
Reserve, beginning of year	<u>3,242,484</u>	<u>612,031</u>	<u>166,182</u>	<u>4,020,697</u>	<u>2,552,751</u>
Changes in reserve:					
Settlement costs	(536,725)	(506,236)	(161,433)	(1,204,394)	(1,055,720)
Professional service costs	(860,545)	(22,759)	(29,249)	(912,553)	(789,711)
Claims expense	<u>1,764,773</u>	<u>(17,207)</u>	<u>196,620</u>	<u>1,944,186</u>	<u>3,313,377</u>
	<u>367,503</u>	<u>(546,202)</u>	<u>5,938</u>	<u>(172,761)</u>	<u>1,467,946</u>
Reserve, end of year	<u>3,609,987</u>	<u>65,829</u>	<u>172,120</u>	<u>3,847,936</u>	<u>4,020,697</u>

PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012

6. Revenue - Insurance Premiums

	<u>2012</u> \$	<u>2011</u> \$
General liability, errors and omissions	1,177,196	1,125,803
Primary property and crime	1,321,594	1,159,130
Automobile liability	460,815	406,795
General government premium	<u>140,000</u>	<u>140,000</u>
	<u>3,099,605</u>	<u>2,831,728</u>

7. Claim Recoveries

	<u>2012</u> \$	<u>2011</u> \$
General liability, errors and omissions	565,680	51,264
Change in estimated recoveries	<u>(501,864)</u>	<u>512,438</u>
	<u>63,816</u>	<u>563,702</u>
Primary property and crime	29,420	32,191
Change in estimate recoveries	<u>(10,562)</u>	<u>(23,084)</u>
	<u>18,858</u>	<u>9,107</u>
Automobile liability	69,862	38,587
Change in estimated recoveries	<u>(1,144)</u>	<u>15,989</u>
	<u>68,718</u>	<u>54,576</u>
	<u>151,392</u>	<u>627,385</u>

8. Consulting Expense

	<u>2012</u> \$	<u>2011</u> \$
Consulting - risk management	60,000	47,124
Consulting - legal and accounting	16,674	20,756
Property inspections and programs	<u>3,600</u>	<u>16,520</u>
	<u>80,274</u>	<u>84,400</u>

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

**9. Insurance Premiums**

	<u>2012</u> \$	<u>2011</u> \$
General liability, errors and omissions	600,085	589,052
Primary property and crime	580,266	531,376
Automobile liability	<u>155,792</u>	<u>149,248</u>
	<u>1,336,143</u>	<u>1,269,676</u>

**10. Financial Risk Management Objectives and Policies**

The Fund's risk management policies are part of the overall management of the Fund's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements and actions. The Fund limits its claims risk by purchasing excess insurance to create additional liability coverage on individual claims.

The self retention limits for the Fund per claim in the current fiscal year were:

Liability	\$5,000,000	and	\$1,000,000	(Medical Malpractice)
Property	\$ 250,000	and	\$ 25,000	(QEH)
Auto	\$1,000,000			

Additional coverage from excess insurers:

Liability	\$10,000,000	and	\$ 15,000,000	(Medical Malpractice)
Property	\$50,000,000	and	\$208,000,000	(Health)
Auto	\$19,000,000			

**11. Related Party Transactions**

Premiums collected and first party claims paid are with government entities. Certain costs incurred by the Province on behalf of the Fund are not reflected in these financial statements. These costs include office accommodations and other administrative expenses.

**12. Statement of Cash Flow**

A statement of cash flow has not been prepared as the required cash flow information is readily apparent from the other information included in these financial statements.

**13. Budgeted Figures**

Budgeted figures have been provided for comparative purposes and were derived from the estimates approved by the Treasury Board.



Finance and  
Municipal Affairs